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SUBJECT: PARIS CLUB - MARCH 2005 TOUR D'HORIZON, PART I

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SUMMARY

1. (U) Following are summaries of country discussions during the March 9-10, 2005 Paris Club session. The Paris Club's President, Jean-Pierre Jouyet, chaired the session. Secretary General (SecGen) Emmanuel Moulin represented the Secretariat. Representatives of non-Paris Club members Brazil, Israel, Korea and Turkey attended discussions on those countries to which they are creditors. This section, Part I, includes countries Angola-Honduras; Part II includes countries Iraq-Sao Tome and Principe; Part III includes countries Serbia-Zimbabwe, as well as methodological discussions on improving HIPC debt relief and avoiding prepayment costs.

2. (U) NOTE: INDIVIDUAL CREDITOR POSITIONS REPORTED IN THIS MESSAGE SHOULD BE TREATED AS "PARIS CLUB CONFIDENTIAL" AND NOT/NOT DISCUSSED WITH DEBTOR COUNTRY

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REPRESENTATIVES, NOR WITH NON-PARIS CLUB PARTICIPANTS.

3. (SBU) Discussed in this session:

Angola -- IMF Update (Brazil)
Argentina -- Upcoming negotiation (Israel)
Chad -- IMF update, extension of the current agreement
China -- possible accession
Dominican Republic -- IMF Update, upcoming negotiation
Guinea -- IMF update (Brazil)
Honduras -- IMF update, phase 2 implementation, completion point calendar
Iraq -- IMF update (Korea)
Jordan -- IMF update, phase 2 entry-into-force
Kyrgyz Republic -- Upcoming negotiation (Turkey)
Liberia -- request for data assistance
Nigeria -- 2005 debt repayment schedule (Brazil/Israel)
Nicaragua -- Comparability of Treatment with Brazil
Peru -- buyback, Secretariat report (Brazil)
Poland -- Prepayments (Brazil)
Russia -- Buyback proposal
Rwanda -- IMF update, completion point calendar
Sao Tome and Principe -- IMF update, financing assurances
Serbia and Montenegro -- IMF update, phase 2 entry-into-force
Sudan -- IMF update (Brazil)
Tsunami-affected countries -- IMF update, follow up

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actions, requests from Sri Lanka and Indonesia
Zambia -- IMF update, completion point calendar
Zimbabwe -- IMF update, arrears and payments (Brazil)

4. (U) ACTION/FOLLOW-UP/UPCOMING ITEMS

Methodology -- Possible publication of rules concerning buybacks and prepayments; new HIPC debt relief initiative

April negotiation -- Peru buyback

TBD negotiation -- Russia buyback

ANGOLA

5. (SBU) The IMF reported that the Board discussed Article IV last week. The IMF welcomes the peace, economic performance, transparency, and structural reforms. An agreement for a Staff Monitored Program (SMP) could help, according to the Board, to lay the

groundwork for donors and external creditors. A mission will visit in April on the SMP.

16. (SBU) The World Bank representative said that the Board approved an interim strategy to provide basic services. The Bank is looking at the investment climate, and a consultant is looking at the linkage between the poverty reduction strategy and the budget.

17. (SBU) The Secretariat reported that it had held a meeting with the Angolan authorities, who had outlined their progress. The Angolans reported that they are about to complete bilateral agreements with non-Paris Club members Hungary and Bulgaria, and maybe China. They want a debt treatment without the IMF. The Secretariat pointed out that Paris Club principles, especially linkage to an IMF program, conditionality and Comparability of Treatment (CoT), make a deal difficult. The Angolans still think it is possible to treat the debt without the IMF (cf. LUANDA 367). The Secretariat has no sense that there will be a rapid resolution, but in any event, dialogue has been established.

ARGENTINA

18. (SBU) The IMF observed that "there is much to say, but maybe it is premature to say anything." The Board met last week on the debt exchange offer. Argentina's fiscal performance is strong; it is running a fiscal surplus of 5.4% of GDP. It has made no structural reforms. According to preliminary data released March 3rd, the debt exchange offer had achieved a 76% participation rate of eligible debt (USD 62 billion, not including 19.6 billion of "ineligible" debt and 5 billion in arrears). Is too early to know what will happen next. The Managing Director met with the Finance Minister on Sunday, March 6 and technical discussions will continue in DC over the next few weeks. No agreement has been reached about Article IV. The Argentineans have not said what else they want. They continue to pay the fund. A USD 145 million repurchase expectation payment was made and another 145 million payment is expected today. Argentina owes the fund USD 5.6 billion in debt servicing payments.

19. (SBU) The World Bank noted that the way forward is unclear. Structural reforms have been slow, especially with the utility. Further lending this year depends on what happens with the IMF.

110. (SBU) The Secretariat said that our situation also depends on the Fund. It had prepared a draft letter encouraging Argentina to resume discussion with the Paris Club on the basis of an IMF-supported program and to meet its obligations to Paris Club creditors, and seeks reactions.

111. (SBU) Germany said it strongly supports the letter, which has a good friendly tone.

112. (SBU) Italy observed that it was premature for the Paris Club to send any signal, in particular a friendly gesture, towards Argentina. Argentina has not yet approached the Paris Club, and Italy is not suggesting that they do so.

113. (SBU) The USDEL voiced concern over sending the wrong signals to Argentina and said that it was not really within the purview of the Paris Club to prescribe a course of action to Argentina that would increase the IMF's exposure to the country. It is up to Argentina to make the first gesture. He suggested that an appropriate form of approach to Argentina would be simply be to remind the country of the need for it to meet its financial obligations to creditors.

114. (SBU) The Netherlands agrees, but prefers that a letter be sent.

115. (SBU) Japan said that the Paris Club should just write a letter telling Argentina to repay.

116. (SBU) The UK said it is clear the Paris Club should not endorse what has or is about to happen. It prefers a concise letter.

117. (SBU) The President noted the consensus to draft a more severe letter, and after clarification from Italy that there is no consensus to send a letter at this time, agreed to wait until the suitable moment.

CHAD

118. (SBU) The IMF said the Board approved on February 16 a new Poverty Reduction Growth Facility (PRGF). Assistance to strengthen fiscal management relies on HIPC

debt relief. The first review will take place in the summer of 2005. The World Bank rep noted that the Chad pipeline is flowing but oil revenues are already allocated.

119. (SBU) The President noted the consensus to grant Chad an extension through September 30, 2005 thanks to the approval of a new PRGF.

CHINA

120. (SBU) The President reported that the Secretariat has made no progress on collecting data regarding China's debt position. He proposed that the Presidency write a letter to China to open the dialogue and circulated a draft for consideration.

121. (SBU) The IMF reported it is preparing for Article IV consultations in May to cover the macroeconomic policies and economic opening. The World Bank rep noted that China is the Bank's largest borrower, with USD 21 billion combined IBRD/IDA exposure. Although it is no longer eligible for IDA loans, it is still active with the IBRD, which anticipates another 1.3 to 1.4 billion this year. The Chinese have made a large prepayment of high-fixed-interest rate loans.

122. (SBU) Russia said it generally supports the idea of maintaining a dialogue with China given its increasing role as a creditor. It will be important to establish contact in the near future. The first meeting should include all creditors to be acceptable to Russia. The best place for that would be in Paris. The meeting would be political, not technical.

123. (SBU) Germany said it thinks it important to consider the wish of China to join the Paris Club. However, the Paris Club should not be too hasty, as it does not yet have enough information. China has not yet even made an official request, so it would be best to keep any talks informal with just the President. Germany needs a formal request first. It remembers that when Russia was invited, the Club was very sensitive to the first steps. With China it will be even more delicate, as Germany has no idea whether the Chinese respect Paris Club principles.

124. (SBU) The UK argued that a small informal approach is best, and more time is needed to consider a letter of invitation.

125. (SBU) The USDEL agreed that caution is needed. Although the USG shared the general sentiment in favor of seeking means to further integrate China into the world economy, a letter at this time would be premature. Creditors should have a detailed assessment of China's position as an official creditor; once such data were available, members could make an informed decision about how to proceed.

126. (SBU) Italy agreed that the Club should not send any message. Italy too would have liked to have data. It can support a letter, with the Paris Club taking the first move, to take stock of what the Chinese think. China has said it would be willing to implement the HIPC initiative.

127. (SBU) Japan supports sending a letter, but agrees that the first meeting should include all Paris Club creditors, and would like more data.

128. (SBU) Australia said it is cautious but positive, with caution about how China might affect the consensus.

129. (SBU) Canada said it is not sure if it is too early to send a letter but is positive to the idea. It needs more information and the Chinese need to know their obligations.

130. (SBU) The President noted the consensus that integrating China is important, but the lack of consensus about everything else. He also raised the conundrum of the IMF saying no official request for data has been made, so it is difficult for the IMF to collect data. The IMF clarified that in order for the exercise to be useful, the Chinese should view the request in a positive fashion. The topic cannot simply be tacked onto the Article IV consultations. The President suggested the Secretariat would try to redraft a letter to be

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circulated for comments.

DOMINICAN REPUBLIC

131. (SBU) The IMF reported that the Board approved a new Stand-By on January 31. Staff will visit next week to discuss the Metro project. The GoDR would like staff to participate in its roadshow, and the IMF is amenable. The GoDR understands it needs financing for its 2005 programs. The GoDR authorities are confident that commercial bank reschedulings will be initiated in early April. As of February 21, the GoDR has USD 56 million in arrears to the banks. The GoDR expects to launch its bond exchange by the end of March, and anticipates a high level of participation; the Secretariat was less sanguine. Exact timing of the launch depends on congressional approval.

132. (SBU) The World Bank rep said the Bank had disbursed two conditional tranches in 2004, and was finishing another USD 25 million for electricity that week. Another 25 million is earmarked for the social sector, 3 of 8 conditions are completed but progress is good so the Bank expects to disburse the funds in April. It is also working on a power-sector loan of USD 150 million, which should go to the Board in June, subject to congressional passage of enabling legislation. Power shortages continue.

133. (SBU) The Secretariat reported that only one bilateral agreement has been completed. The Secretariat can check on CoT in May and perhaps aim for a negotiation in June.

134. (SBU) Belgium reported new post-ccod arrears of USD 2.9 million from the Health Ministry (but noted it was only an observer to the last Agreed Minute).

135. (SBU) Norway said that the GoDR's technical default of USD 7 million has been preliminarily resolved; if an agreement is concluded there will be no actual default. Norway would appreciate that the IMF and the Paris Club communicate its concerns.

136. (SBU) The President noted the consensus to communicate concerns about arrears to the GoDR.

GUINEA

137. (SBU) The IMF reported that Guinea has accumulated short-term arrears, but hopes they will be cleared soon. The World Bank rep remarked that Guinea routinely accrues arrears for 30 days at a time; it appears to be rolling over its arrears but always stays short of the 45-day limit. It is operating in a low lending scenario, with support restricted to vital sectors and no budget support whatsoever.

138. (SBU) Russia reported arrears are accumulating. It will continue to monitor.

HONDURAS

139. (SBU) The IMF reported that the PRGF is on track as was achievement of HIPC completion point. The second review and completion date is scheduled to come to the Board on March 30. No topping up will be needed. There is, however, one technical point: a revision of the database in NPV of a USD 30 million decrease. Under HIPC rules, the country is not obligated to accept the change, and Honduras does not, therefore there will be no revision.

140. (SBU) The World Bank rep said the Board date is set for April 5. IBRD claims are significant and so the Bank will deliver relief against these with an IDA credit. In the decision point document, the Bank had envisioned these would be delivered in their entirety, however, because of the delay and the maximizing of interim relief, interim relief was not enough. Residual debt relief will be delivered on a reduction of the debt service on the IDA portfolio.

141. (SBU) The Secretariat noted that an April negotiation might be possible, but it will need to further refine the timeframe. There will be no fiscal impact if the negotiation takes place in May.

Baghdad minimize considered.
LEACH